

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
SINGLE FAMILY APPRAISAL INDUSTRY ROUNDTABLE  
CHICAGO, SEPTEMBER 11, 1998  
SUMMARY OF REMARKS**

**INTRODUCTION**

On Friday, September 11, 1998, the third HUD single-family appraisal roundtable discussion was held in Chicago. Approximately forty individuals participated in the roundtable - - one-half in person and the other half via telephone conferencing. Participants represented various stakeholders in the appraisal profession, including the appraisal industry, government, professional organizations, real estate, lending, education and training, legal and certification boards. The discussion focused on HUD's proposed reforms to the single-family appraisal process, including proposed changes to the Uniform Residential Appraisal Report (URAR) and the Valuations Conditions (VC) form. Emphasis was also placed on appraiser education and professional training. The roundtable was hosted by the Appraisal Institute and was held at its headquarters offices in the John Hancock Tower.

**INTRODUCTORY REMARKS - D.J. LAVOY**

Mr. LaVoy opened the roundtable by conveying greetings from Secretary Cuomo and providing background information about the proposed HUD reforms. This reform process is designed to protect homebuyers, increase appraiser responsibility and protect HUD/FHA interests. Special mention was made of the revised Single-Family Appraisal Manual (manual 4150) and the increased appraiser performance standards. These are only one component of the reforms and HUD focus. Attention is also being paid to lenders and other groups associated with FHA loans, such as lenders, mortgage brokers and real estate sales people. HUD is currently pursuing a new plan that monitors the performance of lenders as part of this entire reform process. However, this Chicago roundtable would focus on the single-family appraisal part of the reform plan.

A fundamental issue associated with the reform process is creating a partnership between HUD and the appraisal industry. HUD wants to hear from all the stakeholders in this process. Creating this partnership will ensure that success is the outcome of these reforms.

An overview of the materials provided to the Chicago attendees was presented. The materials include:

- Executive Summary of the revised Single Family Appraisal Manual
- Overview of the Chicago Roundtable
- Proposed revised Uniform Residential Appraisal Report (URAR)
- Proposed revised Valuation Conditions (VC) Form

A commitment was made to send these materials to telephone participants or allow access to these materials via the Internet.

Mr. LaVoy provided an overview of the manual by stating that it was designed to be a "one stop shopping" guide for FHA single-family appraisals. The proposed manual will reduce all

previous manuals to one manual. In addition, an accompanying pocket guide is being developed for appraisers to use in the field. A separate manual is being developed to consolidate the numerous mortgage manuals into a single, user-friendly manual.

## **INDUSTRY PARTICIPATION AND ISSUES DISCUSSED**

The platform was then opened to the industry participants for discussion.

### **Status of Reform Process**

The discussion began with questions about where HUD was in the reform process. Industry representatives wondered how far the manual and forms were from finalization. The answer to these inquiries was that the next roundtable, scheduled for the beginning of October, would include an unveiling of the proposed URAR, VC form and manual. In addition, the URAR and VC form will be placed on the HUD Internet site. HUD anticipates a period of approximately two weeks during which industry comments will be accepted regarding the proposed single-family appraisal manual.

### **Proposed revisions to the forms**

In general, participants expressed both positive and negative feedback on the URAR and VC forms.

### **Uniform Residential Appraisal Report (URAR)**

Discussion included positive remarks about the proposed revisions to the URAR form. The discussion included observations about the form increasing responsibility for appraisers but questions were raised about HUD's movement in an opposite direction from the other users. Freddie Mac and FNMA, are moving in an opposite direction, with decreased reporting requirements. Because of the differences in the quality of borrower and property and the risk associated with the large number of first time borrowers in the FHA program, HUD does not want to reduce the reporting requirements for FHA-insured mortgages. FNMA and Freddie Mac have higher levels of equity and debt coverage ratios and therefore greater tolerance for approximation of value than HUD. Because HUD deals with a different market than FNMA and Freddie Mac, there is a lesser tendency to follow the same path as these GSEs.

Various participants concurred with the observation that the URAR and VC forms might be used solely by HUD, given the trend toward the Desktop Underwriter and other abbreviated forms. The response to this question was that HUD wants to be extra careful because of the nature of their business and the nature of their clients. For example, less equity required by FHA means that the loans it insures are more risky. Consequently, HUD wants the appraisers to exercise additional caution in reporting estimates of value.

Concerns also arose regarding the requirement that appraisers must either recommend or not recommend a home inspection. One concern was that appraisers were not qualified to give this type of recommendation. HUD emphasized that this is where education and training become critical. Ira Peppercorn emphasized that this requirement was not meant to force the appraiser to conduct a home inspection. Rather, pressure is being taken off appraisers by clearly defining the specific items that an appraiser must look for when estimating the market value of a property to be insured by FHA.

The group discussed specific changes to the URAR. Ira Peppercorn emphasized that there are no dramatic changes or new requirements to the form. However, the form has been changed to make it more user-friendly and allow for electronic data capture. Again, the level of specificity in the form is different from Freddie Mac and Fannie Mae who want the process automated and quick, and with less information provided.

The group provided suggestions for improvement or other areas to look for change on the URAR form, including:

- Elimination or rewording of the data field for “Other Health and Safety Item” adjustments. This field was regarded by some as being too vague. The response was that HUD was looking at how this item was presented and means of clarifying the intent.
- Eliminate the addition of reporting if the appraiser is under investigation or has been found guilty of any misconduct or wrong-doing from the form. This information was believed to be detrimental to the appraiser’s integrity and professional standing and could not be verified by HUD anyway. In addition, statistics were provided by the group that indicated that some claims against appraisers were groundless and others minor, but a check that the appraiser is being investigated still held a stigma. (specifics are discussed later in this overview)
- Change in the order of adjustments

### **Valuation Conditions Form (VC)**

The proposed revisions to the VC form were received positively. The group was pleased that previous roundtable comments were incorporated, specifically:

- Replacement of “Acceptable” and “Unacceptable” selections with “Yes” and “No” selections
- Expanded categories for specific observed conditions
- Emphasis that the VC form observations are not a replacement for a home inspection

However, there was still some concern about the perceived expanded role of the appraiser. Participants differed on the interpretation of the increased liability issues, but HUD clarified that the requirements remain the same, but that the requirements will be more objective and more well known. Additional comments to improve the VC form were provided, including:

- Change the syntax so that a “Yes” answer indicates that the condition was observed
- Semantical changes
- Expansion of the introduction to the form to remove any warranties by the appraiser

The discussion indicated that the industry supported the direction of the forms and would be willing to work with HUD on the training for the forms. Several organizations have offered to work with HUD in tailoring existing courses for FHA appraisal training to HUD’s new standards.

### **Liability and Sanctions**

Liability was a major concern. One issue concerning liability dealt with the requirement to recommend or not recommend a home inspection and the liability associated with this recommendation. The question was raised whether a “Yes” in recommending a home inspection was required for FHA approval. If a “Yes” were required, appraisers would simply check that box. Although this issue or possibility is known to HUD, the addition of an explanation as to why the appraiser was checking “Yes” would be added to the form, thereby requiring some support for the recommendation. Also, in each section of the VC form, there is a comment section where an appraiser must explain any “Yes” responses. Through these requirements, an automatic “Yes” would not be acceptable. HUD would still depend upon and require the appraiser to exercise professional judgment and bring the necessary professional knowledge to the form to select the most appropriate response. The discussion continued to include the possibility that time would be added to the closing process and the homebuyer would incur additional costs for appraisal services as a result of the changes. Again, the services requested are no different than the existing requirements, so any changes in pricing would be market-driven.

Participants discussed the types of actions that would trigger liability and sanctions against appraisers. Both Mr. LaVoy and Mr. Peppercorn emphasized that small things will not be pursued out of context or excessively. HUD is not looking at catching and punishing the appraiser who makes an honest mistake. Rather, HUD wants to stop the small minority of dishonest appraisers who give the industry a bad name and provide a disservice in the home buying process. HUD wants to stop the egregious actions, such as not reporting a foundation crack that is obvious, that lead to eventual defaults by the homebuyers. The standard for determining liability is a common sense and reasonability. To accomplish this, HUD is creating objective definitions and standards for appraisers to follow. These sanctions will be tiered, based on the frequency, severity and results of the infraction. In all instances, the first desired level of HUD intervention is through education and training about HUD standards.

Discussion about the URAR requirements of disclosing whether the appraiser is under investigation by a state licensing or professional certifying organization generated great debate. The comment was made that investigation does not necessarily mean guilt and that five to ten percent of all claims that are investigated are frivolous. A recommendation was made to include a place for the appraisers to express why they are under investigation or to eliminate the requirement altogether. Another concern with this required disclosure was a potential problem with different confidentiality standards. For example, a state body investigating a case may not allow the investigation to be published. Mr. LaVoy responded to these concerns by stating that HUD’s intent was to stop an appraiser from moving from state to state creating problems without a state knowing about the appraiser’s history before it is too late. HUD’s goal is to share knowledge among states and professional organizations. Mr. LaVoy also pointed out that the required disclosure is not intended to get information and pass judgment on the appraiser who might be under investigation. HUD is working on setting up a clearinghouse for information on appraisers doing FHA appraisals.

Regarding liability, a recommendation was made to use a seller disclosure statement that would take some liability away from the appraiser. HUD is currently looking at incorporating such a disclosure in the lending process. However, there are several problems with implementing a seller disclosure, including the lack of a national standard, differences in local and state laws and informing the homebuyer prior to at the closing table.

The roundtable continued with a discussion on the enforcement process that will include gathering data, analyzing the data, conducting field reviews, providing education and pursuing sanctions. Sanctions would be based on a four-tier scale and will be correlated to enforcement efforts between HUD, states and professional organizations. The four tiers include:

- education and training
- administrative sanctions
- debarment
- criminal pursuits

The sanction will be based on the frequency and severity of the infraction as well as the resulting magnitude of the consequences. The avenues of enforcement have been in HUD's possession to use, although HUD has not exercised use of the means prior to the proposed reforms.

A recommendation was made that HUD include, as part of the process, a 1-800 number for appraisers to report situations when lenders pressure the appraisers to give a certain value on a home. This will allow appraisers access to HUD and enable HUD to act concurrent with the actions and not have to be reactive or too far after the fact.

### **Education and Professional Training**

One emphasis of the Chicago roundtable was on education and training. HUD and the appraisal industry need to work together on raising the bar for appraisers and providing training so appraisers can meet these expectations. Education is the best way to work together to achieve success. Throughout the roundtable discussions, several industry groups have stepped forward to offer to assist HUD in developing and presenting training to appraisers performing FHA appraisals.

HUD would also like to reduce the number of appraisers on the FHA list. This reduction will be accomplished by increasing the standards and attracting the most experienced and qualified appraisers to perform services for FHA. Again, new standards will require updated and expanded training and HUD wants to work together with industry to make sure this training is provided. Recommendations from participants regarding reducing the number of FHA approved appraisers include requiring :

- a certain number of years of experience in the appraisal industry
- state certification of license
- certain education courses from professional organizations

Concerns regarding education and training included the issue of start-up educational organizations that are not providing adequate training and inconsistent training standards among the states and different providers. This concern was addressed by recommending HUD certification for educational programs. This suggestion will be taken under advisement.

## CONCLUSION

Mr. LaVoy concluded the meeting by summarizing the Chicago roundtable and introducing the next scheduled roundtable to be held in October, in Washington DC. This proposed roundtable will focus on the roll-out of the proposed Single-Family Appraisal Manual. The manual will be published on the Internet and in paper. The document will be updated periodically and HUD will allow for changes after it has been used for nine months to one year.

The Internet site for roundtable information is: [www.hud.gov/reac/reachome.html](http://www.hud.gov/reac/reachome.html)

The REAC contact person is:

Leonard Nowak  
490 L'Enfant Plaza  
Suite 8202  
Washington, DC 20410  
(202) 755-0102 Extension 3035  
(202) 708-3473 FAX  
[Leonard\\_L.Nowak@hud.gov](mailto:Leonard_L.Nowak@hud.gov)